Seventy-Sixth

ANNUAL REPORT

Year Ended December 31

1970

CENTRAL OF GEORGIA RAILWAY COMPANY

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CENTRAL OF GEORGIA RAILWAY COMPANY

Seventy-Sixth ANNUAL REPORT 1970

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H.F. JUN 14 1971

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CENTRAL OF GEORGIA RAILWAY COMPANY

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*W. GRAHAM CLAYTOR, JR.	*Chairman of the Board and Chief Executive Officer, Central of Georgia Railway Company; President, Southern Railway Company, Washington, D. C.*
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MARTIN L. TRESSEL	*Retired Vice President, Alcoa Intenational, Inc., Pittsburgh, Pa.*
*D. ABBOTT TURNER	*Chairman of the Board, Columbus Bank & Trust Company, Columbus, Ga.*
SIM S. WILBANKS	*Vice President, Southern Railway Company, Washington, D. C.*

*Member of Executive Committee

To the Stockholders of
CENTRAL OF GEORGIA RAILWAY COMPANY:

It is a pleasure to report to you that both operating revenues and net income for Central of Georgia Railway Company and its consolidated subsidiaries were up in 1970 compared with 1969.

Operating revenues increased from $60,592,000 in 1969 to $65,402,000 in 1970. Operating expenses remained almost the same — $50,660,000 in 1970 and $50,643,000 in 1969. Federal income taxes, however, increased by almost $3,000,000. The result was net consolidated income of $4,366,000 in 1970 as compared to $1,509,000 in 1969. Complete details of your Company's financial performance will be found in the accompanying financial statements for Central and its consolidated subsidiaries as well as for the Company only.

In its continuing program of improving equipment and facilities, Central of Georgia in 1970 acquired 8 new diesel-electric switching locomotives, 100 new 70-ton cushioned underframe box cars, 100 100-ton wood chip cars and several miscellaneous cars at a cost of $5,072,000. The Savannah & Atlanta acquired 100 70-ton cushioned underframe box cars and two 100-ton open top hopper cars at a cost of approximately $1,806,000. Seventy-seven track-miles of welded rail were installed on Central's lines during the year. This brings the railway's installations of welded rail to 556 track-miles, or approximately one-third of its total mileage. Roadway maintenance improvements and replacement of older bridges and trestles continued.

The plan mentioned in last year's report to consolidate your Company, Savannah & Atlanta Railway Company, Wrightsville and Tennille Railroad Company and Georgia & Florida Railway Company into a new company to be known as Central of Georgia Railroad Company, is still pending before the Interstate Commerce Commission. (Your Company owns the controlling percentage of shares in the Wrightsville and Tennille and, through a subsidiary, controls all stock of Savannah & Atlanta. Southern Railway Company, through its subsidiaries, controls all stock of Georgia & Florida.) This past February, the Commission gave preliminary approval to the plan, subject to a number of conditions acceptable to your management. One condition would increase the price to be paid minority common shareholders of your Company from $42 to $47.40 a share. Proposed payments of

$3.25 a share to minority shareholders of Wrightsville and Tennille and $84 a share to minority preferred shareholders of your Company would remain the same. A petition for reconsideration has been filed by a minority shareholder of your Company's common stock and the matter is still under review by the Commission.

Negotiations have been opened with all represented labor organizations for the purposes of coordinating employee contracts and merging the necessary seniority rosters into the rosters of the Savannah District of Central of Georgia. A number of these negotiations have been completed and it is expected that all negotiations will be resolved during 1971.

There is still pending in the United States District Court for the District of Columbia an action filed in 1965 by two minority stockholders seeking to compel the declaration and payment of dividends on preferred stock of Central for the years 1960 to date (with the exception of one year for which a preferred dividend was paid) and for future years. A motion for summary judgment was filed by the plaintiffs on March 25, 1970. A petition filed by your Company at about the same time with the United States Court of Appeals has resulted in the entry of orders, by that court and, on February 1, 1971, by the District Court, staying further proceedings in the lawsuit pending the final outcome before the I.C.C. of Central's proposed consolidation plan.

Central of Georgia's new freight classification and forwarding yard at Savannah, Georgia, began operations on April 5, 1970. It is intended that the new yard be consolidated with the adjoining Savannah & Atlanta yard at Central Junction as soon as negotiations have been completed with the representatives of our operating crafts employees.

During 1970, Central received authorization to discontinue the operation of the passenger train, "Man O' War," between Atlanta and Columbus, Georgia. This train had been operating at a direct loss of $127,700 a year.

Your Company expects to enter into an agreement with the National Railroad Passenger Corporation (NRPC) concerning intercity railroad passenger service which will relieve your Company of its responsibility to perform such service on and after May 1, 1971. At this time, the final agreement has not been submitted by NRPC.

The chief element of cost to your Company of entering into the agreement is the payment to NRPC of an amount equal to no more

than 50 per cent of your Company's 1969 fully distributed passenger service deficit as reported to the Interstate Commerce Commission. This deficit was $2,388,052. Accordingly, the payment will be no more than $1,200,000 in cash, payable in 36 equal monthly installments without interest.

NRPC does not initially propose to operate any passenger service over the lines of the Company, and the routes operated by the Company do not appear to lend themselves to service that would attract the type of traffic density sought by NRPC. As a result, it appears probable that there will be no service operated over routes of the Company by NRPC in the foreseeable future.

There is a possibility the Company will be faced with some labor protection costs but such costs are not expected to be substantial.

Assuming that an agreement is executed, the Company will discontinue the passenger service it now operates as of May 1, 1971: the daily "Nancy Hanks" between Atlanta and Savannah and the every-other-day "City of Miami" between Birmingham and Albany. Failure to enter into an agreement with NRPC would require the Company to continue operation of both trains. Since the "City of Miami" would have no connecting service at either Birmingham or Albany, this train would generate negligible revenue and operate at almost a total loss.

Agreements were reached during 1970 with all but two of the labor organizations representing the adversely affected Central of Georgia employees, with regard to the application of the protective condition orders issued by the Interstate Commerce Commission when Southern was authorized to acquire control of that Company. Settlement with the two remaining unions is expected in 1971.

As additional information for you, I am enclosing a copy of the Southern Railway Company Annual Report for 1970. Southern's consolidated financial statements include Southern Railway Company and subsidiary companies in which Southern owns, directly or indirectly, more than 50 per cent of the voting stock. Southern owns 98.89 per cent of the preferred stock and 99.33 per cent of the common stock of Central of Georgia.

Sincerely,

W. Graham Clayton, Jr.

Chairman of the Board

CENTRAL OF GEORGIA RAILWAY COMPANY
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

YEARS 1970 AND 1969

	1970	1969
Railway operating revenues:		
Freight	**$62,677,000**	$57,948,000
Passenger	**560,000**	758,000
Mail	**351,000**	104,000
Other	**1,814,000**	1,782,000
	65,402,000	60,592,000
Other income	**1,445,000**	1,251,000
Total income	**66,847,000**	61,843,000
Railway operating expenses:		
Maintenance of way and structures	**11,196,000**	11,571,000
Maintenance of equipment	**11,923,000**	11,182,000
Transportation	**20,738,000**	21,138,000
Other	**6,803,000**	6,752,000
	50,660,000	50,643,000
Taxes other than federal income	**4,429,000**	4,086,000
Equipment rent expense	**1,280,000**	2,483,000
Joint facility rent expense	**486,000**	696,000
Miscellaneous deductions from income	**208,000**	236,000
Fixed charges, principally interest	**2,163,000**	1,928,000
Total expenses	**59,226,000**	60,072,000
Income before federal income taxes	**7,621,000**	1,771,000
Less: Federal income taxes — Note 2	**3,255,000**	262,000
NET CONSOLIDATED INCOME FOR THE YEAR	**$ 4,366,000**	$ 1,509,000

CENTRAL OF GEORGIA RAILWAY COMPANY
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1970 AND 1969

ASSETS	1970	1969
Current assets:		
Cash and short-term investments	**$ 4,855,000**	$ 3,144,000
Accounts receivable	**4,352,000**	5,723,000
Other	**153,000**	226,000
	9,360,000	9,093,000
Investments in (at cost) and advances to affiliates	**1,661,000**	1,820,000
Other assets	**1,774,000**	1,878,000
Properties — Note 3	**127,822,000**	121,892,000
	$140,617,000	$134,683,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	**$ 7,223,000**	$ 9,630,000
Federal income taxes — Note 2	**3,159,000**	1,718,000
Current maturities of long-term debt — Note 4	**3,399,000**	3,391,000
	13,781,000	14,739,000
Long-term debt — Note 4	**39,229,000**	37,472,000
Net amount payable to parent company — Note 1	**2,422,000**	3,165,000
Reserve for federal income tax — Note 2	**2,543,000**	1,348,000
Reserves and other liabilities	**3,484,000**	3,162,000
Minority interest in subsidiaries	**103,000**	108,000
Total liabilities	**61,562,000**	59,994,000
Shareholders' equity:		
Preferred stock, $100 par value 230,000 shares authorized 170,394 shares outstanding	**17,039,000**	17,039,000
Common stock, no par value 500,000 shares authorized 337,242 shares outstanding	**33,724,000**	33,724,000
Capital surplus	**9,000**	9,000
Income retained in the business — Note 5	**28,283,000**	23,917,000
Total shareholders' equity	**79,055,000**	74,689,000
	$140,617,000	$134,683,000

CONSOLIDATED STATEMENT OF INCOME RETAINED IN THE BUSINESS

YEARS 1970 AND 1969

	1970	1969
Income retained beginning of year	**$23,917,000**	$23,260,000
Net income for the year	**4,366,000**	1,509,000
Cash dividend of $5 per share on preferred stock — Note 5	**—**	(852,000)
Income retained end of year	**$28,283,000**	$23,917,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Principles of Consolidation

The consolidated financial statements include Central of Georgia Railway Company and all subsidiary companies in which Central owns, directly or indirectly, more than 50% of the voting stock. Companies owned 50% or less are recorded as investments at cost.

Central of Georgia Railway Company, a subsidiary of Southern Railway Company (Southern) is over 99% owned by Southern. Its operations are integrated with those of Southern and other affiliated companies. Common costs from integrated operations are allocated among the companies including Central in relation to the companies' participation in the operations which give rise to the cost.

During 1969, in accordance with a plan adopted by the Board of Directors of the participating companies, Central of Georgia Railway Company joined with Savannah & Atlanta Railway Company, Wrightsville and Tennille Railroad Company and Georgia & Florida Railway Company in application to the Interstate Commerce Commission (I.C.C.) for authority to consolidate these four companies into a new company to be known as Central of Georgia Railroad Company. Under the plan minority shareholders of Central of Georgia and Wrightsville and Tennille will receive cash for their stock and the new company will be wholly-owned by Southern. This plan received tentative approval from the I.C.C. However, reconsideration of this approval has been sought by a minority common stockholder of Central.

Note 2 — Federal Income Taxes

The Company and its 80% owned subsidiaries are included in the consolidated federal income tax return of Southern. The Statement of Income reflects the amounts to be paid to the consolidated group for the Companies' portion of federal income taxes for the years 1970 and 1969.

The provisions of the Uniform System of Accounts for railroad companies prescribed by the I.C.C. vary from generally accepted accounting principles in that accounting recognition is given to reductions in income taxes from use of rapid amortization of railway equipment as provided in the Tax Reform Act of 1969 and accelerated depreciation. Had provisions for income taxes been made in accordance with generally accepted accounting principles, net income for 1970 and 1969 would have been as follows:

	1970	1969
Net income as reported	$4,366,000	$1,509,000
Provision for deferred income taxes	908,000	180,000
Investment tax credit adjustment	—	402,000
Net income on a generally accepted accounting principles basis	$3,458,000	$ 927,000

Possible deferred taxes which have not been provided for in the accounts aggregate $15.8 million and $14.9 million at December 31, 1970 and 1969, respectively. The investment tax credit, which has been applied under the flow-through method, reduced the federal income tax provisions by $300,000 for 1970 and $800,000 for 1969.

The Internal Revenue Service has proposed assessments against the Company incident to its separate income tax returns for the years 1950 through 1961 of $1.8 million. The Company is protesting this deficiency and is asserting substantial offset claims. In the opinion of management, adequate provision has been made for any deficiency settlement that will be made for these and other open years. The portion of liability for income taxes which is not expected to be settled currently is classified as long-term on the Balance Sheet.

Note 3 — Properties

Properties comprise the following at December 31:

	1970	1969
Road	$ 90,142,000	$ 85,421,000
Equipment	91,195,000	86,182,000
Other property	2,081,000	3,662,000
	183,418,000	175,265,000
Accumulated depreciation	55,596,000	53,373,000
Net properties	$127,822,000	$121,892,000

In accordance with I.C.C. accounting regulations, rails, ties and certain other road properties are not depreciated but are accounted for under an acceptable alternative practice of "replacement" accounting. Under this method, replacements in kind are charged to expense and betterments are capitalized, but are not depreciated. At December 31, 1970 and 1969, non-depreciable road property, including land, aggregated approximately $74 million and $73 million, respectively. Substantially all other property is depreciated for financial statement purposes on a straight-line basis over lives assigned by the I.C.C., which, for the most part, vary from 15 to 50 years. Depreciation expense was $4.4 million for 1970 and $4.1 million for 1969.

Note 4 — Long-Term Debt

Long-term debt comprises the following at December 31:

	1970	1969
First Mortgage Series A — 4% Bonds	$10,139,000	$10,139,000
General Mortgage (Income) Series B — 4½% Bonds	10,671,000	10,671,000
Equipment Obligations — 3¼% to 9%	21,818,000	20,053,000
	42,628,000	40,863,000
Due within one year	3,399,000	3,391,000
Due after one year	$39,229,000	$37,472,000

Substantially all of the Company's non-current assets are pledged as collateral for long-term debt. Interest on the income bonds is payable only if earned.

Note 5 — Preferred Stock Dividend

Preferred stock dividends are cumulative for a period of three years. The Company's retained earnings are restricted as to payment of dividends on common stock until preferred dividends of $2,556,000, representing three years' arrearage, have been declared and paid.

Note 6 — Pension Plan

At December 1, 1970, all salaried employees of the Company and consolidated subsidiaries came under the Southern Railway System Retirement Plan. The policy of the Company is to fund accrued pension costs annually. It is estimated by the actuary for the plan that the trust fund balance exceeds the vested rights of participants covered by the plan. Prior to December 1, 1970, all salaried employees were covered by an informal pension plan which was not funded.

Pension costs charged to expense were approximately $200,000 in 1970 and 1969. The plans are non-contributory.

Note 7 — Contingent and Other Liabilities

At December 31, 1970 and 1969, the Company had contingent liabilities of $49.1 million and $57.4 million, respectively, which include indebtedness of affiliated companies, certain outstanding equipment obligations for Trailer Train Company and assessment of additional premiums under service interruption policies carried jointly with other railroads.

There is pending in the United States District Court for the District of Columbia a suit filed by two minority stockholders in 1965 seeking to compel the declaration and payment of dividends on preferred stock of the Central for 1960 and subsequent years. In the opinion of counsel for the Company, the suit is without merit.

PRICE WATERHOUSE & CO.

1707 L STREET, N.W.

WASHINGTON, D. C. 20036

January 25, 1971

To the Board of Directors and
Shareholders
Central of Georgia Railway Company

We have examined the accompanying consolidated balance sheets of Central of Georgia Railway Company (a subsidiary of Southern Railway Company) as of December 31, 1970 and December 31, 1969 and the related consolidated statements of income and income retained in the business for each of the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2, the accompanying consolidated financial statements vary from generally accepted accounting principles in that they do not include provision for deferred income taxes.

In our opinion, except for the matter outlined in the preceding paragraph, the financial statements referred to above present fairly the consolidated financial position of Central of Georgia Railway Company and subsidiaries at December 31, 1970 and December 31, 1969 and the results of their operations for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Price Waterhouse & Co.

CENTRAL OF GEORGIA RAILWAY COMPANY ONLY

The following financial statements of Central of Georgia Railway Company only are included as supplementary financial information. Note references appearing on these statements refer to the notes to the consolidated financial statements appearing elsewhere in this report.

STATEMENT OF INCOME

YEARS 1970 AND 1969

	1970	1969
Railway operating revenues:		
Freight	**$57,057,000**	$52,602,000
Passenger	**560,000**	758,000
Other	**1,481,000**	1,523,000
	59,098,000	54,883,000
Other income	**630,000**	1,586,000
Total income	**59,728,000**	56,469,000
Railway operating expenses:		
Maintenance of way and structures	**10,790,000**	11,062,000
Maintenance of equipment	**10,786,000**	10,076,000
Transportation	**18,691,000**	19,087,000
Other	**6,464,000**	6,224,000
	46,731,000	46,449,000
Taxes other than federal income	**3,686,000**	3,449,000
Equipment rent expense	**2,050,000**	2,807,000
Joint facility rent expense	**473,000**	689,000
Miscellaneous deductions from income	**122,000**	90,000
Fixed charges, principally interest	**2,104,000**	1,916,000
Total expenses	**55,166,000**	55,400,000
Income before federal income taxes	**4,562,000**	1,069,000
Less: Federal income taxes — Note 2	**1,946,000**	(638,000)
NET INCOME FOR THE YEAR	**$ 2,616,000**	$ 1,707,000

BALANCE SHEET

DECEMBER 31, 1970 AND 1969

ASSETS

	1970	1969
Current assets:		
Cash and short-term investments	**$ 549,000**	$ 531,000
Accounts receivable	**3,926,000**	5,269,000
Other current assets	**100,000**	139,000
	4,575,000	5,939,000
Investments in (at cost) and advances to affiliates	**14,381,000**	14,384,000
Other assets	**798,000**	1,067,000

Properties:	1970	1969		
Road	**$ 78,362,000**	$ 75,494,000		
Equipment	**81,202,000**	78,000,000		
Other property	**1,914,000**	1,945,000		
	161,478,000	155,439,000		
Accumulated depreciation	**50,250,000**	48,313,000		
Net properties			**111,228,000**	107,126,000
			$130,982,000	$128,516,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	1970	1969
Current liabilities:		
Accounts payable and accrued expenses	**$ 6,186,000**	$ 8,762,000
Federal income taxes	**2,168,000**	975,000
Current maturities of long-term debt:		
Mortgage bonds	**130,000**	130,000
Equipment obligations	**2,814,000**	2,849,000
	11,298,000	12,716,000
Long-term debt:		
Mortgage Bonds 4% to 4½%	**21,908,000**	22,116,000
Equipment obligations 3¼% to 9%	**16,314,000**	15,485,000
Net amount payable to parent company — Note 1	**2,272,000**	2,887,000
Amounts payable to subsidiaries	**2,485,000**	2,485,000
Reserve for federal income taxes — Note 2	**2,233,000**	1,300,000
Reserves and other liabilities	**3,352,000**	3,023,000
Total liabilities	**59,862,000**	60,012,000
Shareholders' equity:		
Preferred stock, $100 par value — 230,000 shares authorized 170,394 shares outstanding	**17,039,000**	17,039,000
Common stock, no par value — 500,000 shares authorized 337,242 shares outstanding	**33,724,000**	33,724,000
Capital surplus	**9,000**	9,000
Income retained in the business	**20,348,000**	17,732,000
Total shareholders' equity	**71,120,000**	68,504,000
	$130,982,000	$128,516,000

STATEMENT OF INCOME RETAINED IN THE BUSINESS
YEARS 1970 AND 1969

	1970	1969
Income retained beginning of year	**$17,732,000**	$16,877,000
Net income for the year	**2,616,000**	1,707,000
Cash dividend of $5 per share on preferred stock — Note 5	**—**	(852,000)
Income retained end of year	**$20,348,000**	$17,732,000

LOOK AHEAD-LOOK SOUTH

PRINCIPAL OFFICE.....227 West Broad Street, Savannah, Ga. 31401

WASHINGTON OFFICE..920 Fifteenth Street, N.W., Washington, D. C. 20005

NEW YORK OFFICE.....70 Pine Street, New York, N. Y. 10005

STOCK TRANSFER AGENT.....Bankers Trust Company
16 Wall Street, New York, N. Y. 10015

REGISTRAR OF STOCK....Morgan Guaranty Trust Company of New York
30 West Broadway, New York, N. Y. 10015